

APPENDIX 9

FINANCIAL STATEMENT PRESENTATION

A. Minimum Account Presentation

1. Compliance Requirement. The books and records of the Mortgaged property and of the project shall be kept in accordance with the requirements of the Secretary.
2. Refer to Healthcare Entities – AICPA Audit and Accounting Guide using the Natural Classification of accounts for general presentation. However see subparagraph (3 and 4 below) for required accounts
3. The following specific accounts/account groups of the Mortgagor are required by HUD. However, the Mortgagor may show additional detail.
 - a. Cash and Cash Equivalents
 - b. Net Patient Receivables
 - c. Total Current Assets
 - d. Net Plant, Property, and Equipment
 - e. Assets with Limited Use
 - f. Total Assets
 - g. Accounts payable and accrued expenses
 - h. Salaries and Benefits payable
 - i. Current portion of long term debt & capital leases
 - j. Long term capital debt and Leases
 - k. Total Liabilities
 - l. Shareholders' Equity¹
 - m. Unrestricted Net Assets (If applicable)
 - n. Temporarily Restricted (If applicable)
 - o. Permanently Restricted (if applicable)
 - p. Patient Service Revenue Net of Contractual Allowances and Discounts
 - q. Provision for Bad Debts
 - r. Net Patient Service Revenue less Provision for Bad Debts
 - s. Other Operating Revenue
 - t. Total Operating Revenue
 - u. Salaries & wages
 - v. Physician Salaries & Wages
 - w. Employee Benefits
 - x. Professional Fees
 - y. Supplies and expenses
 - z. Depreciation and Amortization
 - aa. Interest Expense

¹ Owner's Equity for a Partnership, Net Assets for Not-for-Profits

- ab. Bad Debt Expense
- ac. Total Operating Expenses
- ad. Income from Operations
- ae. Non Operating Income and/or Expenses
- af. Extraordinary items/ Income taxes
- ag. Net Income
- ah. Information on certain other accounts/account groups is required, and may be part of the supplemental information or notes. This includes:

- (1) Allowances against patient receivables
- (2) Accumulated Depreciation
- (3) Qualified liquid investments (a HUD defined account²).
- (4) Net inpatient Revenue
- (5) Net outpatient Revenue
- (6) Charity care
- (7) The MRF Balance required, and actual
- (8) Changes in Shareholder's Equity³
- (9) Distributions to Owner/related organizations⁴

- 4. HUD may require the following accounts:
 - a. Hospital Held Non Liquid Qualified Investments
 - b. Related Entity Liquid Investments
 - c. Related Entity Non-liquid investments
- 5. Income from operations that are not a part of the Mortgagor⁵ but deposited in the Mortgagor's account is to be classified as non-operating revenue to the extent that the revenue differs from the related expense.
- 6. Income from investments and contributions shall be classified as non-operating income.
- 7. Depreciation and interest expense are to be included in operating expenses.
- 8. See **Appendix 8-1 for Account Groupings and Definitions.**

² See Appendix 8-1.

³ Owner's Equity for a Partnership, Other Changes in Net Assets for Not-for-Profits

⁴ Includes distributions for Activities of the corporation excluded from the Mortgagor. This account should also be a line item on the Statement of Cash Flows.

⁵ See Appendix 8-3 for definition of Mortgagor.

B. Consolidations and Combined Financial Statements

1. Generally Accepted Accounting Principles require consolidated reporting of all investments in which a parent company has a controlling financial interest represented by the direct or indirect ownership of a majority voting interest (more than 50%), except those in which significant doubt exists regarding the parent's ability to control the subsidiary.
2. **Compliance Requirement.** The Secretary shall be furnished with a complete annual financial report based upon an examination of the books and records of mortgagor prepared in accordance with the requirements of the Secretary, prepared and certified to by an officer or responsible Owner and, when required by the Secretary, prepared and certified by a Certified Public Accountant, or other person acceptable to the Secretary.
 - a. If the hospital has operations or affiliates that are separate from the Mortgagor, the hospital must maintain separate accounts for excluded activities and balances.
 - b. The hospital is required to submit an audited financial statement for the mortgagor, not the mortgagor and other entities. If consolidated financial statements are submitted or financial statements are submitted that contain Assets, Liabilities, Equity⁶, Revenues, or Expenses that are excluded from the Mortgagor, then supplemental schedules are required.
 - c. If the hospital is required to consolidate, the hospital should use the equity method if possible
 - d. Mortgagor accounts and activities shall be clearly discernible from excluded activities.
 - e. The notes to the financial statements shall clearly distinguish between Mortgagor and excluded activities.
 - f. Non-Mortgagor activities are classified as non-operating income.
 - g. If consolidated financials are presented, Balance sheet, Statement of Operations⁷, Cash Flows, shall be presented for the Mortgagor in a consolidating statement reconciled to the financial statement in a separate schedule. Additional notes modifying the notes to the financial statements for the consolidated entity may be required to distinguish items specific to the Mortgagor if the separation is not made in the main note.
 - h. If the notes to the financial statements do not clearly distinguish between mortgaged property and property excluded from the mortgage, the separated schedules shall also include related notes.
 - i. The separate schedules shall include a revised note on transactions with related parties treating the consolidated entities as a separate entity from the Mortgagor. A suggested presentation for consolidating schedules is in the format of:

<u>Description</u>	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
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⁶ Net Assets for Not-for-Profit Organizations

⁷ Statement of Income and Retained Earnings for For-Profit organizations

APPENDIX 9-1**ACCOUNT GROUPINGS AND DEFINITIONS**

The following chart shows the typical accounts that are included in the account heading for financial reporting to HUD and submission of Form 92422-OHF (Financial and Statistical Data for HUD Reporting). This chart is not intended to restrict the separate accounts that a hospital may have on its balance sheet. Certain headings have been omitted such as Accumulated Depreciation or Net Patient Revenue as the heading itself is self-definitive and standard throughout the healthcare industry. Additional accounts should be classified based on the pattern.

MAIN HEADING	TYPICAL ACCOUNTS
Cash and Temporary Investments	Cash Cash on hand Savings Checking CDs Marketable securities Investments Short-term investments Assets limited as to use-current portion only
Accounts Receivable, net	Patient Accounts Receivable net
Accounts Receivable, gross	Patient Accounts Receivable gross
Other Receivable	Other Receivable
Qualified Liquid Investments	Qualified Liquid Investments Board Designated for Capital Improvements Other non-current assets (if investments) LESS amount pledged on line of credit LESS amount pledged on letter of credit LESS amount due to underfunding of self insured fund LESS amount due to underfunding of pension fund

Limited Use or Designated Assets	Assets limited as to use Debt Escrow Fund Mortgage Reserve Fund Deferred financing costs Permanently restricted assets Investment in affiliates Assets tied up by a Letter of Credit (LOC) Self-insured trust Pension Fund Restricted by Donor PLUS amount pledged on line of credit PLUS amount pledged on letter of credit PLUS amount due to underfunding of self insured fund PLUS amounts due to underfunding of pension fund Deferred Tax Asset
Net Plant Property and Equipment	Total Fixed Assets (net of accumulated depreciation) Property and equipment, net Property, Plant and Equipment Land Improvement Real Estate Building Improvement Leasehold Improvements Construction in Progress Accumulated depreciation accounts related to the above
Accounts Payable and Accrued Expenses	Accounts Payable Accrued Expenses Accrued interest payable Trade Accounts Payable Other Accrued Expenses Other, Construction & retainage payable
Current Portion of Long-Term Debt	Current portion of capital debt Current portion of mortgages Current portion of notes payable Current portion of long term lease obligations Current portion of equipment purchases

Total Other Current Liabilities	Other current liabilities Accrued Salaries & Benefits Payables to 3rd party payors Due to related entity Other
Long-Term Capital Debt & Leases	Mortgages Payable Lease Obligations
Total Other Long-Term Liabilities	Other long-term debt Minority interest in Consolidated Sub Other Non-current Deferred Revenues Deferred tax liability
Unrestricted Net Assets	Unrestricted Common stock issued and outstanding Common stock shares Retained earnings Paid in capital Partner's Capital Invested in capital assets net of related debt
Temporarily Restricted Net Assets	Temporarily restricted
Restricted Net Assets	Restricted Permanently Restricted, held by related organization Permanently Restricted Net Assets
Other Operating Revenues	Other operating revenue Rental income Cafeteria sales Rental of space Amounts received from Related organizations offset by operating expenses Release of Temporarily Restricted Assets for operating purposes Certain permitted tax revenues ⁸ Total Other Operating Revenue

⁸ Tax fee programs where a hospital pays a “fee or contribution” and then receives increased Disproportionate Share Funds back may be included in Other Operating Revenues. Other tax revenue may be included if authorized in writing by HUD.

Total Salaries and wages	Salaries and Wages (Do not include salaries and wages for physician employees unless employed as other than a physician such as a CEO who is also a physician.)
Salaries and wages -Physician	Salaries & wages of physicians
Employee Benefits	
Professional Fees	Contract Physician Fees
Total Supply Expense	Supplies Purchased services and other contract services Utilities Insurance Other expenses [Note: some hospitals prefer to exclude utilities, insurance, and other expenses from supply expense and restrict this account to supplies, office supplies, central sterile supply, etc. It is acceptable to group these items in a separate grouping titled “Other Operating Expenses.”]
Non-operating revenue	Non-operating revenue Contributions Grants Interest income Investment income Net realized gains & investment income Net assets released from restrictions for capital assets Gain on disposal of property and equipment Income less expenses of non-mortgaged entities Minority interest in consolidated subsidiary
Non-operating expense	Non-operating expense Non-operating losses Change in additional minimum pension liability Loss on sale of assets Loss on disposal of assets Loss on disposal of property and equipment

Extraordinary Items and Income Taxes	<p>Cumulative effect of accounting change Gains or losses on the extinguishment of debt Accelerated depreciation due to the HUD insured project Income taxes unless specifically authorized in writing by HUD Losses or Gains from sale of equipment Losses or Gains from discontinued operations</p>
Other Changes in Net Assets	<p>This is a catch-all field for any other causes for changes in Net Assets such as a change in accounting principle, distribution (or contributions) of Net Assets, an increase or decrease due to restatement of prior period earnings, gifts of permanently restricted assets, additional paid in capital, etc. It is equal to the current period total net assets less the amount of total net assets from the prior year annual financial statements, less unrecognized gains and losses, less changes in temporarily restricted assets.</p>

The following table is the definition of certain accounts. If there is a conflict between the following definitions and the definition in the Regulatory Agreement, the definition in the Regulatory Agreement controls.

Cash	For the mortgagor, include all highly liquid investments that are readily convertible to cash such as commercial papers and short-term investments that are included in the current asset section of the balance sheet.
Patient Accounts Receivable	This is accounts receivable pertaining only to patient care for the mortgagor. It is usually displayed net of allowance for uncollectible accounts and contractual adjustments. If the gross amount is given, subtract these items from the gross amount to get to the net accounts receivable figure. Do not include other receivables, grant receivables, miscellaneous receivables or receivables from third party agencies.
Qualified Liquid Investments	For the mortgagor: Qualified Liquid Investments are generally made up of marketable securities, CD's, and bond investments that are undesignated and available for general operational use of the hospital within six months or less if so desired. Qualified liquid investments does not include: a) Any accounts, investments, etc. that are part of a self insurance fund; b) Proceeds of any borrowings including without limitation: (1) any internal affiliate loans regardless of the maturity date, (2) proceeds of any outstanding accounts receivable financing; (3) proceeds from lines of credit, or (4) funds supporting a letter of credit, loan guarantee, etc. c) Investments in any related entity or entity controlled by a related entity; d) Pledges receivable; e) Permanently restricted net assets; f) Reserve funds related to an issuance of bonds; g) Amounts shown as an unfunded or underfunded reserve(s); h) Mortgage Reserve Fund(s) or other loan reserve funds; or i) Any items that cannot be clearly identified as meeting the criteria of this definition in the financial statements of the organization. Generally alternative investments are excluded from Qualified

Qualified Liquid Investments (cont'd)	Liquid investments. Investments designated by the board for future use or for general capital improvements and that are not part of the Equipment Replacement Reserve Fund (or similar fund) nor excluded by any of the other categories listed in this definition may be classified as Qualified Liquid Investments and shall not be excluded because of the designation by the board.
Hospital Held Non Liquid Qualified Investments	This account includes amounts that meet all of the criteria for Qualified Liquid Investments except: <ol style="list-style-type: none"> 1. They could not be made available for general operational use within six months, or 2. They were classified as alternative investments.
Assets Whose Use is Limited:	For the mortgagor, this is the total of the non-current portion of all restricted or temporarily restricted assets whose use is limited. It includes the Mortgage Reserve Fund and any reserve accounts such as self-insurance reserves or pension reserves. Do not add back the current portion of this item that has been designated as a current asset in the financial statements.
Plant, Property, and Equipment	This is the total land, land improvements, plant, property, fixed assets, and equipment, moveable equipment, and medical equipment recorded on the balance sheet in accordance with GAAP for the mortgagor.
Accounts Payable	For the mortgagor, this item should reflect what is owed on materials, supplies, utilities, and other personnel expenses. Exclude accrued salaries, wages, employee benefits, professional fees and accrued interest.
Current portion of Long Term Debt and Capital Leases	For the mortgagor, this includes the current portion of all types of capital debt including current portion of leases (with more than one year of duration) recorded on the balance sheet.

Long Term Debt and Capital Leases	This should include all capital debt that is not included in current liabilities including capital leases and other leases (with more than one year of duration) that are recorded on the balance sheet for the mortgagor. It does not include any related bonds as they are not a part of the mortgagor.
Generally Accepted Accounting Principles distinguish the net assets of a corporation with appropriate descriptions depending on the organizational structure of the entity. Section 242 uses the following mapping for the treatment of these items and entering data on the Quarterly Data Request.	
Unrestricted Net Assets	<p>This should be for only the mortgagor.</p> <p><u>For profit entities</u> Common stock issued and outstanding Common stock shares Retained earnings Paid in capital Partner’s capital</p> <p><u>Not-for- Profit entities</u> Unrestricted Net Assets</p> <p><u>Governmental entities</u> Unrestricted Net assets Invested in capital assets net of related debt</p>
Temporarily Restricted	Net Assets marked as temporarily restricted for the mortgagor.
Permanently Restricted	Assets held by a related foundation for the benefit of the hospital may be entered on this line if they appear on the balance sheet, otherwise only enter assets for the Mortgagor. Enter assets restricted as to use.
Patient Revenue net of contractual allowances and discounts	Follow Health care industry practice
Provision for Bad Debts	Bad debts related to patient care in accordance with Healthcare industry practice
Net Patient Service Revenue net of Bad Debts	Follow healthcare industry practice.

Other operating revenue	For the mortgagor. (Income from investments, unrestricted contributions, interest income, gains from the sale of assets, non-operating revenues, and extraordinary gains are excluded from operating revenue) In certain case where the dollar amounts are assured, revenues from taxation may be included. ⁹
Total Operating Revenue	Total operating revenue for the mortgagor. Total Operating Revenue is defined as: Net Patient Service Revenue plus Other Operating Revenue
Salaries and wages	Salaries and wages for non-physician employees for the mortgagor.
Physician salaries and wages	Employee physician salary and wages including call pay. (Do not include physicians acting in a non-medical capacity such as the CEO). Include emergency department, medical directors, hospitalists, physicians working in clinics and other employee physicians.
Employee Benefits	Enter employee benefits if available.
Professional Fees	Professional fees are defined as contract physicians.
Supplies	Catch-all category, include all expenses that do not fit elsewhere.
Non-operating income	Income from investments, unrestricted contributions, interest income, gains from the sale of assets, non-operating revenues, extraordinary gains, gains from subsidiaries excluded from the mortgagor, grant revenues (when there is not an offsetting expense), and tax revenues ¹⁰ are examples of non operating income.

⁹ Tax fee programs where a hospital pays a “fee or contribution” and then receives increased Disproportionate Share Funds back may be included in Other Operating Income. Other tax revenue may be included if permitted by HUD.

¹⁰ Tax fee programs where a hospital pays a “fee or contribution” and then receives increased Disproportionate Share Funds back may be included in Other Operating Income. Other tax revenue may be included if permitted by HUD.

Net Income	Net Income Revenues in excess of expenses
Related Entity Liquid Investments	<i>Investments</i> that are held by a Financially Related Organization as defined by GAAP, and (1) can be made available to the Mortgagor, (2) are designated for the sole benefit of the Mortgagor, (3) are included in the audited financial statements of the Mortgagor as Beneficial Interest in Net Assets Held by a Financially Related Organization, (4) are unencumbered, and (5) have a: (a) stated maturity of six months or less, plus (b) the estimated liquidation value of investments which could be liquidated within six (6) months
Related Entity Non-liquid Investments	Investments that meet the definition of Related Entity Liquid Investments except for condition (5).

APPENDIX 9-2
SAMPLE REPORTS

(See following pages)

ABC Hospital
Consolidated Financial Statements and Supplementary Information
December 31, 20xx and 20xx

Selected Sample Pages for Illustrative Purposes

Schedule 1

ABC Hospital
 (Sample Not-For-Profit)
 Balance Sheet of Mortgagor
 Date

Assets	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
Current Assets:			
Cash and Cash equivalents	xxx	xxx	xxx
Gross Patient Receivables	xxx	xxx	xxx
less allowance for uncollectible accounts and contractual allowances	xxx	xxx	xxx
Net Patient Receivables	xxx	xxx	xxx
Other Receivables	xxx	xxx	xxx
Inventories	xxx	xxx	xxx
Other Current Assets	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Current Assets	xxx	xxx	xxx
Qualified Liquid Investments ¹¹	xxx	xxx	xxx
Hospital Held Non Liquid Qualified Investments ¹²	xxx	xxx	xxx
Other Long Term Investments	xxx	xxx	xxx
Investments Limited as to Use ¹³	xxx	xxx	xxx
Net Property and Equipment	xxx	xxx	xxx
Other Assets	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Assets	xxx	xxx	xxx

¹¹ Qualified Liquid Investments are used for certain ratios, if they can be clearly identified in the audit report. See the rider to the Regulatory agreement for a definition of Qualified Liquid Investments. Qualified Liquid Investments, Hospital Held Non Liquid Qualified Investments, and Other Long Term investments may make up a single line item on the Consolidated Financial Statements, but be broken into separate line items on the consolidating schedule.

¹² If required by covenants

¹³ Cash and investments restricted as to purpose related to a bond issuance or backing a letter of credit supporting a bond issuance should be classified as Other Activities. Cash and Investments restricted as to purpose by the FHA insured loan such as the Mortgage Reserve Fund should be classified as Mortgagor. Cash or investments backing a letter of credit should be classified as limited as to use.

Schedule 1 (cont.)

ABC Hospital
 (Sample Not-For-Profit)
 Balance Sheet of Mortgagor
 Date

	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
Liabilities and Net Assets			
Current Liabilities			
Current Portion of Long Term Debt	xxx	xxx	xxx
Accounts Payable and Accrued Liabilities	xxx	xxx	xxx
Accrued interest payable	xxx	xxx	xxx
Accrued Salaries & Benefits	xxx	xxx	xxx
Due to Affiliates	xxx	xxx	xxx
Payables to third-party payors	xxx	xxx	xxx
Other Current Liabilities	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Current Liabilities	xxx	xxx	xxx
Long-term debt & leases, net of current portion ¹⁴	xxx	xxx	xxx
Other Long-term debt	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Liabilities	xxx	xxx	xxx
Net Assets			
Unrestricted Net Assets	xxx	xxx	xxx
Temporarily Restricted Net Assets	xxx	xxx	xxx
Permanently Restricted Net Assets	xxx	xxx	xxx
Total Net Assets	xxx	xxx	xxx
Total Liabilities and Net Assets	xxx	xxx	xxx

¹⁴ The unpaid principle balance (less the current portion) of the FHA insured note will be listed under the Mortgagor. Any amounts outstanding on a bond issuance will be listed as Other Activities.

[or for a for-profit entity]

	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
Shareholder's Equity			
Common Stock, \$20 par value; authorized 5,000 shares; issued and outstanding 3,500 shares	xxx	xxx	xxx
Additional paid in capital	xxx	xxx	xxx
Retained Earnings	xxx	xxx	xxx
Total Shareholder's Equity	xxx	xxx	xxx
Total Liabilities and Shareholder's Equity	xxx	xxx	xxx

[or for a Hospital Authority]**Equity Section of Hospital Authority Balance Sheet¹⁵**

	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
Fund Balance			
Unrestricted	xxx	xxx	xxx
Invested in capital assets net of related debt	xxx	xxx	xxx
Restricted:			
Expendable for Capital Acquisitions	xxx	xxx	xxx
Expendable for Research	xxx	xxx	xxx
Expendable for Specific Operating Activities	xxx	xxx	xxx
Expendable for debt service	xxx	xxx	xxx
Total Restricted	xxx	xxx	xxx
Total Fund Balance	xxx	xxx	xxx
Total Liabilities and Fund Balance	xxx	xxx	xxx

¹⁵ Review chart of accounts classification:

Invested in capital assets – goes to Unrestricted Net Assets ; Expendable for Capital acquisitions, Specific operating activities, and research – goes to Temporarily Restricted Net Assets; Restricted, Donor Restricted, or Restricted for debt service goes to Restricted Net Assets on the Quarterly Data Request.

Schedule 2A

ABC Hospital
 Sample Not-For-Profit
 Statement of Operations of Mortgagor
 Year Ended _____

	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
Revenue:			
Net Inpatient Revenue	xxx	xxx	xxx
Net Outpatient Revenue	xxx	xxx	xxx
Patient Service Revenue (net of contractual allowances and discounts)	xxx	xxx	xxx
Provision for Bad Debts	xxx	xxx	xxx
Net Patient Service Revenue	xxx	xxx	xxx
Other Operating Revenue	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Operating Revenue	xxx	xxx	xxx
Operating Expenses			
Salaries and Wages	xxx	xxx	xxx
Physician Salaries and Wages	xxx	xxx	xxx
Employee benefits	xxx	xxx	xxx
Professional Fees	xxx	xxx	xxx
Supplies	xxx	xxx	xxx
Bad Debts	xxx	xxx	xxx
Interest	xxx	xxx	xxx
Depreciation and Amortization	xxx	xxx	xxx
Other	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Expense from Operations	xxx	xxx	xxx
Operating Income (loss)	xxx	xxx	xxx
Non-operating Revenue (Expense) ¹⁶			
Investment Income	xxx	xxx	xxx
Contributions	xxx	xxx	xxx
Provision for income taxes	xxx	xxx	xxx
Other	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Non-Operating Income (loss)	xxx	xxx	xxx
Excess of Revenue over Expenses	xxx	xxx	xxx
Unrealized gains and losses on other than trading securities	xxx	xxx	xxx
Net assets released from restriction used for purchase of property & equipment	xxx	xxx	xxx
Transfers from (or to) parent	xxx	xxx	xxx
Increase in unrestricted net assets	xxx	xxx	xxx

¹⁶ Note per the Regulatory Agreement that investment income, contributions, tax revenue are classified as non-operating income.

Schedule 2B

ABC Hospital
Sample For-Profit
Statement of Operations of Mortgagor
Year Ended _____

	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
Revenue:			
Net Inpatient Revenue	xxx	xxx	xxx
Net Outpatient Revenue	xxx	xxx	xxx
Patient Service Revenue (net of contractual allowances and discounts)	xxx	xxx	xxx
Provision for Bad Debts	xxx	xxx	xxx
Net Patient Service Revenue	xxx	xxx	xxx
Other Operating Revenue	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Operating Revenue	xxx	xxx	xxx
Expenses			
Salaries and Wages	xxx	xxx	xxx
Physician Salaries and Wages	xxx	xxx	xxx
Employee benefits	xxx	xxx	xxx
Professional Fees	xxx	xxx	xxx
Supplies	xxx	xxx	xxx
Bad Debts	xxx	xxx	xxx
Interest	xxx	xxx	xxx
Depreciation and Amortization	xxx	xxx	xxx
Other	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Expenses	xxx	xxx	xxx
Operating Income (loss)	xxx	xxx	xxx
Non-operating Income (loss) ¹⁷			
Investment Income	xxx	xxx	xxx
Provision for income taxes	xxx	xxx	xxx
Other	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Non-Operating Income (loss)	xxx	xxx	xxx
Net Income (loss)	xxx	xxx	xxx
Retained earnings, beginning of year	xxx	xxx	xxx
Retained earnings, end of year	xxx	xxx	xxx

¹⁷ Note per the Regulatory Agreement that investment income, contributions, tax revenue are classified as non-operating income.

Schedule 3

ABC Hospital
Sample Not-For-Profit
Statement of Cash Flows of Mortgagor
Year Ended _____

	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
Operating Activities			
Change in net assets	xxx	xxx	xxx
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and Amortization	xxx	xxx	xxx
Bad debts	xxx	xxx	xxx
Change in operating assets and liabilities:			
Accounts Receivable	xxx	xxx	xxx
Other receivables	xxx	xxx	xxx
Inventories	xxx	xxx	xxx
Other Current Assets	xxx	xxx	xxx
Accounts payable & accrued liabilities	xxx	xxx	xxx
Other Current liabilities	xxx	xxx	xxx
Net cash provided by (used in) operations	xxx	xxx	xxx
Investing Activities:			
Purchases of Investments	xxx	xxx	xxx
Proceeds from sale of property	xxx	xxx	xxx
Capital expenditures	xxx	xxx	xxx
Purchases of assets limited as to use	xxx	xxx	xxx
Net cash used in investing activities	xxx	xxx	xxx
Cash Flows from financing activities:			
Due to (Due from) affiliates	xxx	xxx	xxx
Principle payments on long term obligations	xxx	xxx	xxx
Proceeds from construction loan	xxx	xxx	xxx
Proceeds from additional contributed capital	xxx	xxx	xxx
Net cash provided by(used in) financing activity	xxx	xxx	xxx
Net increase (decrease) in cash	xxx	xxx	xxx
Cash at beginning of year	xxx	xxx	xxx
Cash at end of year	xxx	xxx	xxx

Schedule 4

ABC Hospital
Sample
 Schedule of Property and Equipment of Mortgagor
 Date

Property and equipment and estimated useful lives (in years) are summarized as follows as of _____.

	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
Land and Land improvements (____)	xxx	xxx	xxx
Buildings and improvements (____)	xxx	xxx	xxx
Equipment (____)	xxx	xxx	xxx
Construction in Progress	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
	xxx	xxx	xxx
Less accumulated depreciation	<u>(xxx)</u>	<u>(xxx)</u>	<u>(xxx)</u>
Net Property and Equipment	xxx	xxx	xxx

Schedule 5

ABC Hospital
Sample
 Schedule of Long Term Debt of Mortgagor
 Date

	<u>Mortgagor</u>	<u>Other Activities</u>	<u>Consolidated Health System</u>
FHA insured Deed of Trust Note at ___% (amount classified as Other Activities Relate xxx Series __ Bonds in excess of FHA insured amount)	xxx	xxx	xxx
Capital Lease obligations expiring in various Amounts through _____	<u>xxx</u> xxx	<u>xxx</u> xxx	<u>xxx</u> xxx
Less Current Portion of Long Term Debt	<u>(xxx)</u> xxx	<u>(xxx)</u> xxx	<u>(xxx)</u> xxx

On (date), ABC Hospital entered into a 25 year \$_____ FHA insured note with ZZZ Mortgagee issued at ___ percent and a Regulatory Agreement with the U.S. Department for Housing and Urban Development for the purpose of _____.

The Hospital is required to maintain certain deposits with a trustee under the terms of the Regulatory Agreement. Such deposits are included with assets limited as to use. Additionally, the FHA insured note is secured by a mortgage on the Hospital premises, substantially all of the assets of the hospital, and all revenues and accounts of the Hospital, except certain accounts restricted as to use.

The Hospital is required to maintain certain covenants under the terms of the FHA insured note and the Regulatory Agreement. The Hospital was (was not) in compliance with all debt covenants at _____.

The FHA insured note was funded by the issuance of \$_____ of revenue bonds through _____ (issuer)_____. [Description of related bond issuance.]

The outstanding principle balance of the bond issuance in excess of the unpaid principle balance on the FHA insured note is classified as “Other Activities.”

Schedule 6

ABC Hospital
 Sample
 Schedule of Due To and Due From Mortgagor¹⁸
 Date

<u>Mortgagor</u>	<u>Other Activities</u>	<u>Reconciling Adjustments</u>	<u>Consolidated Health System</u>
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[NOTE: Transactions between affiliates that are a part of the Mortgagor will be eliminated, and transactions between affiliates or even a division that is **not** a part of the Mortgagor will be reflected as a due to or due from. This may also affect Other Receivables.]

¹⁸ This schedule is required if there were any elimination due to consolidated financial statements or if the Mortgagor was providing/receiving services for activities excluded from the Mortgagor.

Schedule 7

ABC Hospital
 Sample
 Additional Schedules As Needed
 Date

<u>Mortgagor</u>	<u>Other Activities</u>	<u>Reconciling Adjustments</u>	<u>Consolidated Health System</u>
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Additional schedules may be required to clarify certain other notes on the financial statements as to how they relate to the Mortgagor. Such notes may include the note on Investments, contingencies, Accounts Receivable and concentration of credit risk if these notes relate to more than just the Mortgagor. Add additional schedules as appropriate.

APPENDIX 9-3

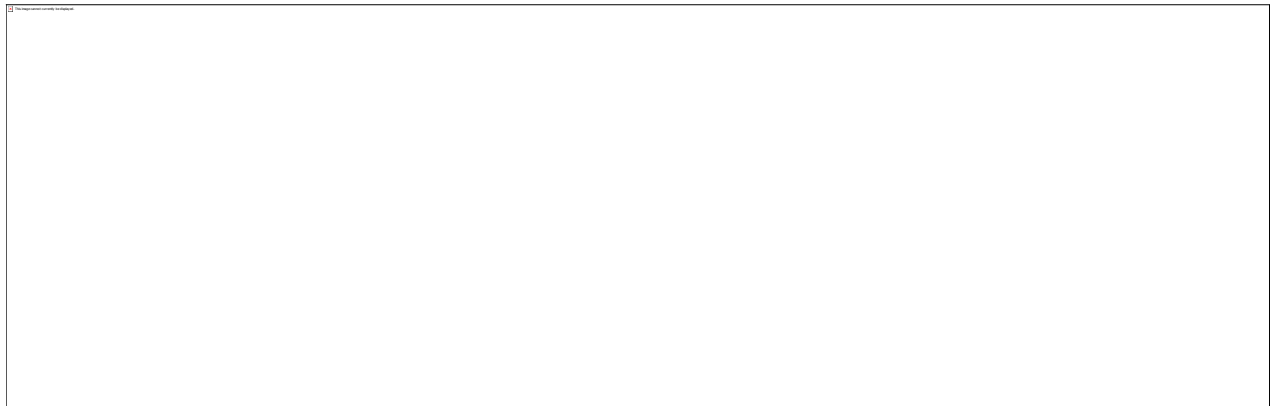
DEFINITIONS

Mortgagor

The term Mortgagor was re-defined in 2012 as: the borrower and its successors and Affiliates under the HUD-Insured Mortgage, to the extent that its assets, liabilities, net assets, revenues, and expenses are encumbered by the Mortgage and the Security Agreement, including without limitation leased equipment for the benefit of the Hospital and restricted assets. The entities which comprise the Mortgagor are identified in an exhibit attached to the Commitment and loan documents.

At the same time, Excluded-Affiliate was defined as: those Affiliates and the activities and operations of the Affiliates which are not considered part of the Mortgagor and are not encumbered by the Mortgage and Security Agreement.

Understanding the Mortgagor and how it may differ from the assets, liabilities, net assets, revenues and expenses presented in consolidated financial statements is essential to a compliance audit for section 242 insured projects. The regulatory agreement focuses on the Mortgagor. Section 6 of the regulatory agreement specifically limits the rights of owners to “convey, transfer, or encumber any of the mortgaged property...” Owners may not distribute any of the assets of the project except surplus cash. The Mortgagor concept becomes important because hospital organizations can be very complicated with several related corporations or divisions within a corporation that are not a part of the Mortgagor. In recent years, OHF has begun adding a chart showing the Mortgagor and excluded affiliates/divisions and attaching this chart to a description of the property in Exhibits to the covenants attached to each commitment for insurance.



The equipment located at ABC Clinic 2 in the above example would also be part of the Mortgagor.

HUD’s focus on the Mortgagor is because:

- The Regulatory Agreement applies to the Mortgagor
- Transfers of assets from the Mortgagor to related organizations or activities outside of the Mortgagor increase the risk to the general insurance fund and have contributed to defaults on insured loans.

HUD has observed the following types of abuses that increase the risk of default:

1. Providing services at no cost (without being reimbursed) or reduced cost for activities that are excluded from the Mortgagor.
2. Paying for expenses that are not reasonable expenses necessary for the operation and maintenance of the Mortgagor or paying for expenses of affiliates or activities that are excluded from the Mortgagor.
3. Paying for empty space or unneeded space in a building, particularly if the space is not a part of the Mortgagor.
4. Failure to collect payment from affiliates or activities that are excluded from the Mortgagor in a timely manner.
5. Paying excessive rates for a management agreement to a related party.

Mortgaged Entity – prior to 2013

Loan documents prior to 2013 may have used the term Mortgaged Entity.

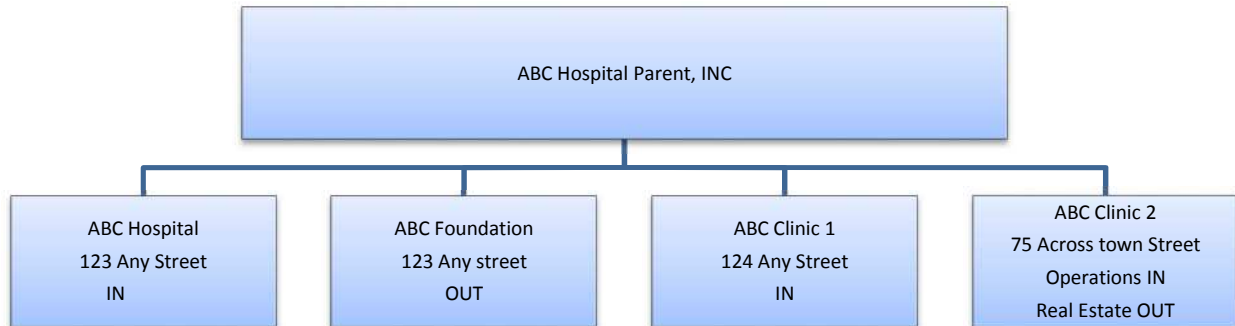
Mortgaged Entity

Mortgaged Entity is defined as: the Mortgagor and its assets, liabilities, net assets, revenues, and expenses that are encumbered by the Mortgage or the Security Agreement. It also includes leased equipment that is so identified and located on the Mortgaged Property for the benefit of the Hospital and restricted assets that are so identified.

The Mortgaged Entity may be larger than the corporation/partnership that is the Mortgagor (because it may include subsidiary organizations) or it may be smaller than the corporation/partnership that is the Mortgagor (because it may exclude certain property, operations, or divisions of the Mortgagor).

Understanding the Mortgaged Entity is essential to a compliance audit for section 242 insured projects. The regulatory agreement focuses on the Mortgaged Entity. Section 6 of the regulatory agreement specifically limits the rights of owners to “convey, transfer, or encumber any of the mortgaged property...” Owners may not distribute any of the assets of the project except surplus cash. The Mortgaged Entity concept becomes important because hospital organizations can be very complicated with several related corporations or divisions within a corporation that are not a part of the Mortgaged Entity. In recent years, OHF has begun adding a chart showing the

Mortgaged Entity and attaching this chart to a description of the property in Exhibit A of the covenants attached to each commitment for insurance.



The equipment located at ABC Clinic 2 in the above example would also be part of the Mortgaged Entity.

HUD's focus on the Mortgaged Entity is because:

- The Regulatory Agreement applies to the Mortgaged Entity
- Transfers of assets from the Mortgaged Entity to related organizations or activities outside of the Mortgaged Entity increase the risk to the general insurance fund and have contributed to defaults on insured loans.

HUD has observed the following types of abuses that increase the risk of default:

1. Providing services at no cost (without being reimbursed) or reduced cost for activities that are excluded from the Mortgaged Entity.
2. Paying for expenses that are not reasonable expenses necessary for the operation and maintenance of the Mortgaged Entity or paying for expenses of affiliates or activities that are excluded from the Mortgaged Entity.
3. Paying for empty space or unneeded space in a building, particularly if the space is not a part of the Mortgaged Entity.
4. Failure to collect payment from affiliates or activities that are excluded from the Mortgaged Entity in a timely manner.
5. Paying excessive rates for a management agreement to a related party.